

PLACER COUNTY ASSESSMENT PRACTICES SURVEY AND ASSESSOR'S RESPONSE

JUNE 1999

CALIFORNIA STATE BOARD OF EQUALIZATION

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FOREWORD

The county assessor is responsible for the assessment of all taxable property within the county, except state-assessed property. The assessor's responsibilities include such things as (1) discovering and taking inventory of all property within the county, (2) determining a property's eligibility for a full or partial exemption from assessment, (3) determining the proper assessee, (4) determining the location for assessment purposes of the property, and (5) determining the taxable value of the property in accordance with California property tax law.

Determining taxable value is usually the most difficult and subjective of the assessor's duties. In addition to the inherently subjective nature of the appraisal process, the assessor also has to determine whether the taxable value is to be based on current fair market value or on a value base set earlier. When there is construction activity on a property, the assessor has to determine whether the construction is to be assessed or whether it is excluded from assessment under the law. When there is an ownership transaction, the assessor has to determine whether the law requires a reassessment of the property or whether the property must continue to be assessed according to the existing value base.

The factors discussed above, as well as others not mentioned here, contribute to making local property tax assessment a difficult tax program to administer. It is also a very important program since the property tax is one of the most important sources of revenue for local governments and public schools. For property owners it is a major annual tax burden, and, since it is normally paid in one or two large installments rather than many small increments, it tends to be more visible than most other taxes. Accordingly, proper administration of the property tax assessment program is vitally important both to the public agencies that rely on the tax and to the people who have to pay the tax.

Although the primary responsibility for local property tax assessment is a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties, performed by the Board's County Property Tax Division, is to conduct periodic surveys of local assessment practices and report the findings and recommendations that result from the survey. The surveys may include a sampling of assessments of the local assessment roll, and they must include research in the assessors office to determine the adequacy of the procedures and practices employed by the assessor in the assessment of taxable property, compliance with state law and regulations, and other required duties.

The assessor was provided a draft of this report and given an opportunity to file a written response to the recommendations and other findings contained in the report. This report, together with the county assessor's response and the Board's comments regarding the response, constitute the final survey report which is distributed to the Governor, the Attorney General, both houses of the State Legislature, and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey report of the Placer County Assessor's Office was completed by County Property Tax Division staff from September 1997 through January 1998. This report does not reflect changes implemented by the assessor after the field work was completed.

The Honorable Bruce Dear County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William B. Jackson, Chief
County Property Tax Division
Department of Property Taxes
California State Board of Equalization
June 1999

COUNTY PROPERTY TAX DIVISION SURVEY GROUP

PLACER COUNTY SURVEY

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Table Of Contents

Foreword	i
County Property Tax Division Survey Group.....	iii
Executive Summary	1
Overview of the Placer County Assessment Roll	2
Summary	2
Recommendations and Suggestions.....	5
Administration	8
Policies and Procedures Manual.....	8
Budget and Workload.....	8
Computer System	9
Record Maintenance.....	10
Training	11
State-County Property Tax Administration Program.....	11
Disaster Relief	13
Assessment Appeals	14
Low-Value Property Exemption.....	15
Exemptions.....	16
Roll Changes	16
Coordination.....	17
Real Property Assessment Program.....	18
Introduction	18
Change in Ownership	18
New Construction.....	21
Declines In Value Program	23
Specific Types Of Real Property	26
California Land Conservation Act.....	26
Section 11	28
Timberland Production Zone.....	28
Possessory Interests.....	29
Mineral Properties.....	34
Water Companies	35
Personal Property Assessment Program.....	36
Introduction	36
Audit Program	36
Business Property Statement Processing	38
Specific Types Of Personal Property	41
Leased Equipment	41
Valuation Factors	41
Boats.....	43
Manufactured Homes	43
Computers	44
Appendix A.....	46
THE ASSESSMENT SAMPLING PROGRAM	46
Appendix B.....	49
Organization Chart	49

EXECUTIVE SUMMARY

Introduction

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to government agencies in Placer County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the Board of Equalization (BOE) to make periodic reviews of the assessor's operation. This survey report is the result of such a review of the Placer County Assessor's Office by the BOE's County Property Tax Division (CPTD).

Subdivision (a) of section 15640 of the Government Code mandates that:

The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.

In addition, subdivision (c) provides that:

The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.

Furthermore, subdivision (f) provides that:

The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

It is apparent from this language that the Legislature envisioned the BOE's office research and appraisal sampling to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty to properly assess all taxable property on the local tax roll. This evaluation was to be based both on office research, or in certain circumstances, office research and actual field appraisals of sampled roll items. The way in which the office research and the sampling process is carried out was developed after consultation with the county assessors by the staff of the BOE's Property Taxes Department.

This survey was conducted according to the method mandated by Government Code section 15642. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate. This report is the culmination of a review of the Placer County Assessor's operation that began research in the assessor's office and concluded with CPTD staff appraisals of sample properties from the county assessment roll. The survey team conducted research in the assessor's office during September and October of 1997. The team reviewed the assessor's current operations to determine whether significant problems identified in the prior survey report continue to exist or have been corrected. The team also reviewed numerous other operations that represent common challenges to California assessor's offices or that are of particular importance in Placer County. Finally, the team sampled a number of assessments on the 1997-98 assessment roll. These properties were selected on the basis of assessment category and assessed value.

As directed by section 15642 of the Government Code, this report contains summaries of the volume and types of assessment work required of the Placer County Assessor, the responsibilities devolving upon the assessor, and the extent to which assessment practices are consistent with or differ from state laws and regulations. The report focuses on problems identified by our survey team and includes recommendations and suggestions to help the assessor resolve those problems.

Revenue and Taxation Code section 75.60¹ requires that the BOE certify a county as eligible for the recovery of costs associated with administering supplemental assessments. In order for a county to qualify as an eligible county, it must achieve an average assessment level that is not less than 95 percent of the amount required by law as determined by the BOE through its assessment sampling program. In addition for sampling for the 1996-97 fiscal year and subsequent fiscal years, the sum of the absolute values of the differences cannot exceed 7.5 percent of the legally required amount. Based upon our assessment sampling for the 1997-98 assessment roll, the BOE certified Placer County as an eligible county. This indicates that its assessment program is in substantial compliance with the law.

OVERVIEW OF THE PLACER COUNTY ASSESSMENT ROLL

The CPTD's field appraisal team completed appraisals of 300 properties of all types assessed on the 1997-1998 Placer County assessment roll. This roll contained a total of 124,852 assessments having a total enrolled value of \$18,131,343,041 (For a detailed explanation of CPTD's assessment sampling program, see Appendix A.)

SUMMARY

The assessor has established good control procedures over production and the quality of the work product. The assessor is very involved in the management of the office and has a good management staff in place to ensure effective operation.

¹ All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

The main office is located in Auburn where most of the real property records and all of the business property files are maintained. There is a field office in Tahoe City that maintains its own real property records. A managing appraiser, three appraisers, and two clerks staff the Tahoe City office. There is also an office in Loomis with five appraisers, two cost estimators and a supervising appraiser assigned to the office.

The office functions are separated into three divisions, i.e., assessment operations division, planning and standards division, and resource division (see Appendix B). The assessment operations division is under the direction of the assistant assessor. It consists of the appraisal sections (business property and real property) and the support sections (customer support and value/records). This division is responsible for making appraisals and maintaining appraisal records.

A chief appraiser directs the planning and standards division which includes the mapping/ownership section. The planning and standards division is responsible for maintaining the maps, making change in ownership determinations, and establishing and maintaining quality control procedures in the office.

Finally, the resource division is responsible for many of the administrative tasks of the department such as preparation of the annual budget and monitoring expenditures, labor distribution, and liaison with the Administrative Services Department for network administration and identification of future hardware/software needs.

In our 1993 survey report, we made 13 recommendations for changes to the assessor's real and business property assessment programs. During our fieldwork we found for this report that several of these recommendations have been implemented. Specifically, the assessor has:

- Conducted an annual study to determine the appropriate capitalization rates for valuing possessory interests.
- Modified the manufactured home assessment program to recognize site influence in parks and is correctly using the NADA value guide.
- Established a schedule of standard costs for tenant improvements.
- Expanded the non-mandatory audit program.
- Appraised all boats at market value.

Recently, the assessor has made numerous improvements to his operation, the majority of which have been in the technology area. He has taken a number of steps to incorporate technology into

the daily operations of his office. One of the first was to create a resource division to acquire, install, and use computer hardware and software.

One program is to annually upgrade about 25 percent of the computer hardware in the office and to provide staff with a network of linked computers. This technology has allowed the staff to: develop a residential sales data program to customize comparable sales searches; use a computer program to draw, calculate improvement areas, and calculate replacement cost new less normal depreciation for residential new construction projects; and use a computer program to automatically update multiple parcels of a single transaction with the same data. In addition, the office and assessment appeals board have developed a database to process appeals.

Other innovations include: creation of an assessment appeals team to handle the large number of appeals; implementation of a decline in value review of all residential property for the 1997-98 assessment roll; and assignment of one full time appraiser to handle all public inquiries. In addition, the assessor has taken steps to produce a policy and procedures manual in an electronic format for the whole staff.

The assessor attempts to provide training for his professional staff within the constraints of his budget. However, a number of staff were deficient in continuing education requirements.

As with many other counties, Placer County is participating in the State-County Property Tax Administration Program. This provides additional funding for the assessor to address his backlog in audits, assessment appeals, and declines in value.

Placer County suffered major property damage during the storms of January 1997. The assessor cooperated with various other governmental agencies to address the needs of taxpayers, specifically to provide assistance in applying for property tax relief. A recommendation from the prior report concerning supplemental assessment procedures and recognition of all qualifying disasters has been addressed.

Because of declining property values, assessment appeals have become a major component of the assessor's workload. The assessor has effectively managed this by developing a shared database with the assessment appeals board and by creating an appeals team to standardize documentation and presentation of appeals, and to effectively process and track appeals.

Statutory provisions now allow the use of section 4831 for roll corrections for certain decline in value properties, which was a concern from our prior report. However, the assessor's office is not correctly identifying those roll corrections that need the section 506 interest.

As is true in most assessors' offices, reappraising real property that has changed ownership or is newly constructed constitutes the bulk of the workload in the office. While the appraisal staff is generally very consistent in how they perform these tasks, we found that section 482 penalties are not applied to those who fail to timely file a change in ownership statement.

Our concern from the prior report about section 11 land (taxable government owned lands) is no longer valid. A recent court decision now requires the assessor to consider the provisions of article XIII A of the California Constitution in addition to those of section 11 of article XIII in the assessment of these properties. We found that the assessor has revised his program to include the additional guideline, and he has maintained good documentation for all section 11 properties.

The assessor has addressed some but not all of our concerns about his possessory interest program from our prior report. His staff is conducting a study of yield rates to determine the appropriate rates for commercial and industrial properties; however, they are using an unusually high rate for grazing land. The assessor has assessed the interest of a professional sports organization at a local community college, but other uses at public airports, fairgrounds, and Lake Tahoe have not been reviewed for assessability.

In our review of the mineral program, we found that the assessor's staff was not following Rule 469 in treating all of the assets of a mineral property as one appraisal unit and not calculating reserve estimates correctly. In addition, the assessor's staff was valuing all mining claims on a price per acre basis, instead of capitalizing an economic rent.

The assessor has implemented our previous recommendation on the assessment of manufactured homes. There is now an adjustment to the sales price for site value and the staff is using the NADA value guide correctly. However, the site value adjustment is a fixed 10 percent of the sales price for all manufactured homes in a park. We believe that a fixed adjustment is inappropriate and a study should be conducted to recognize the proper adjustments for each park.

In our 1993 report, we noted that the staff consisted of four auditor-appraisers. Since then, due to employee turnover and the lack of experience of the current staff, we make a number of suggestions to improve this program. Our only recommendation is that the staff correctly use the Assessors' Handbook Section 581 issued by the BOE.

RECOMMENDATIONS AND SUGGESTIONS

This report contains both recommendations and suggestions for improvements to the operation of the Placer County Assessor's Office.

Government Code section 15645 requires the assesor to respond in writing to the formal recommendations contained in this report. Our recommendations are reserved for situations where one or more of the following conditions exist:

- Violations of state consitutional provisions, statutes, BOE regulations, or case law are present;

- Existing assessment practices result in property escaping assessment or generation of an incorrect amount of property tax revenue;
- Existing appraisal practices do not conform to Board-adopted appraisal methodologies.

Our suggestions are considered less formal than recommendations, and the assessor is not required to make any response to suggestions. Typically, suggestions are BOE staff opinions on ways the assessor can improve efficiency, product quality, or other matters that do not call for formal recommendations.

The following is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order that they appear in the text. The page is noted where each recommendation and its supporting text may be found.

RECOMMENDATIONS

RECOMMENDATION 1:	<i>Bring staff training into compliance with the Revenue and Taxation Code.</i>	11
RECOMMENDATION 2:	<i>Recommend that the board of supervisors conform the low value resolution to the Revenue and Taxation Code.</i>	16
RECOMMENDATION 3:	<i>Instruct staff to properly complete the roll correction form.</i>	17
RECOMMENDATION 4:	<i>Apply section 482 penalties timely.</i>	19
RECOMMENDATION 5:	<i>Revise the CLCA program by: (1) assessing trees and vines, (2) including a charge for irrigation improvements when calculating income to land, and (3) using AUM's as the unit of measurement in assessing grazing land.</i>	27
RECOMMENDATION 6:	<i>Revise the possessory interest assessment program by assessing all qualifying possessory interests.</i>	30
RECOMMENDATION 7:	<i>Improve the mineral appraisal program by recognizing the proper appraisal unit and reviewing reserve estimates.</i>	34
RECOMMENDATION 8:	<i>Assess unpatented mining claims based on rental payments or annual value of assessment work.</i>	35
RECOMMENDATION 9:	<i>Use the BOE's equipment index factors in the AH 581 as recommended.</i>	42

SUGGESTIONS

SUGGESTION 1:	<i>Expedite the revision of policies and procedures that affect compliance with statutory requirements.</i>	8
SUGGESTION 2:	<i>Develop a formal disaster recovery plan for the computer system.</i>	9
SUGGESTION 3:	<i>Improve data control procedures</i>	10
SUGGESTION 4:	<i>Document fractional undivided ownership interests on the assessment record.</i>	19
SUGGESTION 5:	<i>Revise the decline in value program by: (1) clearly labeling the data sheet columns; and (2) updating the procedures in the manual.</i>	25
SUGGESTION 6:	<i>Send questionnaires to owners of TPZ lands for compatible uses information.</i>	29

SUGGESTION 7:	Improve the possessory interest program by (1) consolidating PI records in a central file; (2) increasing documentation on the possessory interest files; (3) reviewing the anticipated term of possession for hangars at public airports; and (4) using appropriate rents and capitalization rates for grazing rights.	31
SUGGESTION 8:	Obtain county water inspection reports and compare to water company property records.....	35
SUGGESTION 9:	Improve audit effectiveness by (1) requiring the completion of an audit checklist in every audit; and (2) requiring properly referenced audit workpapers.	36
SUGGESTION 10:	Instruct staff to verify reported trade level.	38
SUGGESTION 11:	Create and review an annual listing of accounts with penal assessments.	38
SUGGESTION 12:	Expand the discovery program.	40
SUGGESTION 13:	Revise the leased equipment assessment procedures by annually reviewing the BOE's listing of property leased to state assessees.	41
SUGGESTION 14:	Verify the assessment of pollution control devices financed by state bond issues.	43
SUGGESTION 15:	Determine an appropriate site value for each individual manufactured home park.	44

ADMINISTRATION

POLICIES AND PROCEDURES MANUAL

Policies for the assessor's office are typically initiated personally by the assessor and always require his approval. Formal procedures also require approval of the entire senior management team. In addition, draft procedures written by staff are often used as a method of providing informal documentation of new or revised procedures prior to adoption.

Prior to 1993, staff at the assessor's office maintained complete hard-copy sets of approved policies and procedures. Since 1993 the policies and procedures are being converted to a new electronic format which will be readily available to all staff; they may print hard copies as needed. The new format reduces paper waste, ensures immediate access to the most recent procedures, and frees up staff time that was previously dedicated to the production and filing of hard-copy procedures in manuals. At the time of our fieldwork, nearly half of the policies and procedures approved prior to 1993 had been revised and converted to the new electronic format.

In the past year, the assessor's staff has continued to update the office's policies and procedures. The administrative supervisor of the value/records section is working with the senior administrative clerk of the planning and standards division to upgrade and review office policies and procedures. However, a number of important procedures have not been revised.

SUGGESTION 1: Expedite the revision of policies and procedures that affect compliance with statutory requirements.

Draft procedures are sometimes utilized prior to adopting new or revised policies and procedures. These procedures require a lower level of review and approval than formal procedures. Procedures which address items of compliance with state laws and regulations should be identified. Staff should prioritize each of these topics in terms of the need for new or revised procedures and the relative importance of the subject matter.

All existing formal and draft policies and procedures should be reviewed for compliance with statutory requirements, and the corresponding policies and procedures should be revised.

BUDGET AND WORKLOAD

According to the latest estimates by the California Department of Finance, Placer County is one of the top 10 fastest growing counties in California by percentage change. Population increased 3.1 percent to 215,600 in Placer County for fiscal year 1996-97.

For fiscal year 1997-98 the assessor prepared an assessment roll with a staff of 68.

<u>Year</u>	<u>Total Roll Value</u>	<u>No. of Assessments</u>	<u>Budget</u>	<u>Full Time Positions</u>
1993-94	\$14,759,041,447	116,119	\$ 3,187,926	65
1994-95	\$ 15,506,431,001	117,461	\$ 3,251,474	65
1995-96	\$ 16,492,687,657	120,125	\$ 3,304,229	65
1996-97	\$ 17,366,000,803	123,047	\$ 3,817,304	65
1997-98	\$ 18,131,343,041	124,852	\$ 4,056,574	68

The professional staff on hand to handle the real and business property for fiscal year 1997-98 consisted of one chief appraiser, one managing appraiser, one principal appraiser, two supervising appraisers, one supervising auditor-appraiser, two auditor-appraisers, 18 appraisers, and five building cost estimators.

COMPUTER SYSTEM

Placer County is one of nine counties using the Megabyte Integrated Property Management System (IPMS). The IPMS system, referred to as the Gold System in Placer County, was acquired in 1991 and is still in use. Megabyte Systems, a company headquartered in Fresno, developed this full tax cycle data-based software which serves the county assessor, auditor, and tax collector offices. A revised IPMS which will operate within the Windows 95 environment is scheduled for delivery sometime after the fall of 1997.

The same basic system is currently utilized by eight other counties: Butte, Madera, Napa, Yuba, Monterey, Merced, Sonoma, and Kings (which maintains its own applications). Megabyte Systems continually monitors and upgrades the system to correct problems or deficiencies.

The IPMS is augmented by a Megabyte users group which meets once a year. During these meetings, the user counties resolve system problems, achieve consensus on system enhancements, and discuss shared costs of such enhancements. In addition, the IPMS is fully supported by user manuals that are updated by Megabyte Systems.

While IPMS allows the assessor's staff to reduce time-consuming manual functions, an organization which relies heavily on automation is extremely vulnerable in the event of a catastrophic event. Loss of computer systems for even a short period of time could prove costly. Placer County staff conduct weekly transfers of machine-sensible data to secure offsite locations, but no formal disaster recovery plan exists.

SUGGESTION 2: Develop a formal disaster recovery plan for the computer system.

We suggest the preparation of a formal disaster recovery plan be given high priority. This will ensure that the assessor's office has the capability to recover quickly from a catastrophic event. The ability to quickly restore the computer system is critical in an organization, such as the assessor's office, which relies heavily on technology.

Our review found the existing IPMS to be a valuable tool in allowing the assessor's office to maintain its workload and run a quality program. The addition of a formal disaster recovery plan and the upcoming implementation of the new IPMS will further enhance the program.

RECORD MAINTENANCE

In an effort to reduce waste, increase efficiency, and reduce file storage, the assessor's office is increasing its reliance on electronic records and files. For example: (1) the office is in the process of converting from a hard copy policies and procedures manual to an electronic version; (2) the staff is updating database real property records in lieu of hard copy files (top sheets tracking assessable events are seldom updated now); and (3) documents are being purged in favor of reliance on the electronic database for information.

SUGGESTION 3: Improve data control procedures

Control of files appears to be adequate and additional improvements are planned including bar-coding. However, file documentation is minimal. In the past, hard copy appraisal records tracked assessable events and provided essential backup for data entry. Procedures have been revised and appraisers are no longer required to update appraisal records. Instead, assessable events are recorded in the computer system using coded data without adequate detail for future verification of the property, condition, and/or event.

Major computer and database changes have been made recently. In 1993, as a result of database changes, a significant amount of historical base year data was lost. In 1997, assessor's staff made progress in recalculating these lost values, but a number of erroneous values were calculated, primarily due to inadequate and inconsistent hard copy documentation.

We found numerous errors on the worksheets designed and used for decline in value review. The worksheets contained a column of base year values. The appraisers were instructed to recreate any missing base year values that had been lost during the Megabyte transition and enter them into the appropriate column. In reviewing the worksheets, we found numerous errors had been made in manually recalculating these values and in the data entry. Errors we identified included (1) 1997 base year values entered instead of 1996 base year value as a result of poorly labeled columns, (2) review errors due to poor documentation and lost data, (3) data entered incorrectly, and (4) inconsistent completion of data entry documents by appraisers.

We suggest the assessor's office implement procedures to minimize data entry error. The procedures should include the following: (1) a standard format for data entry; (2) a standard method for verifying data entry; (3) consistent labels for data sets; and (4) a guideline for maintaining the base year values for all real property.

TRAINING

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Section 671 further provides that all appraisers shall complete at least 12 hours of training a year if the appraiser holds an advanced certificate, or 24 hours of training if the appraiser does not have an advanced certificate.

To qualify for an advanced appraiser's certificate, an appraiser must have a minimum of six BOE courses. Two of these courses must be classified as advanced courses. Some courses taught by organizations other than the BOE may be used. Qualifying outside courses include Appraisal Institute courses lasting longer than three days and college appraisal courses.

RECOMMENDATION 1: Bring staff training into compliance with the Revenue and Taxation Code.

There are 25 appraisers in the assessor's office subject to the requirements of sections 670 and 671. All but eight of the appraisers have an advanced certificate. Of these eight appraisers, two have not been employed long enough to meet the minimum requirements of an advanced certificate. It is the assessor's intention to get an advanced certificate for these eight employees as soon as possible.

We found that 19 of the appraisers are deficient in continuing education training required by the BOE to maintain a valid certificate. Most of the deficiencies are minor and can be easily remedied by taking one BOE course. However, two of 19 appraisers are deficient by more than 30 hours.

The assessor is well aware of the training needs of his staff and is making every effort within his budget constraints to provide continuing education and to ensure that his appraisal staff meet certification requirements. The assessor has prioritized appraisal staff training based on deficiency of training hours, but budget constraints play a significant role in addressing this deficiency. The assessor allocated \$6,000 per year for training. Appraisers are encouraged to take relevant community college courses, BOE-presented classes, BOE-approved training, and attend conferences such as those organized by the Society of Auditor-Appraisers.

We recommend the assessor bring the training status of his staff into compliance with statute.

STATE-COUNTY PROPERTY TAX ADMINISTRATION PROGRAM

Section 95.31 provides that upon recommendation of the assessor and by resolution of the county board of supervisors, the county may elect to participate in the State-County Property Tax Administration Program (PTAP). This program provides a loan to the county to enhance its property tax program. The majority of California counties participate in the program.

A county must enter into a loan agreement with the State Department of Finance to enhance its property tax administration system, reduce backlogs of reassessments, and maximize enrollment capabilities. The loan cannot be used to supplant the assessor's current level of funding, and the county must maintain a base staffing level, independent of the loan proceeds, that is equal to the levels in the 1994-95 fiscal year.

In March 1996, the Placer County Board of Supervisors, upon the recommendation of the assessor, elected to participate in the PTAP for the period beginning with the 1995-96 roll year and ending June 30, 2000. Under the contract, the State agreed to loan Placer County \$150,000 for fiscal year 1995-96 and \$315,000 for fiscal year 1996-97. The county agreed to use the funds to reduce enrollment backlogs of both mandatory and non-mandatory audits, assessment appeals, and declines in value. The 1996-97 loan contract also provided for staff training in newly acquired computer software.

To address these areas, the assessor used the PTAP funds to recruit more appraisers and clerical staff, fund overtime pay for both professional and clerical staff, upgrade some data processing hardware, and acquire new software. In addition, some of the funds were allocated to the assessment appeals board, the auditor-controller's office, and to the treasurer-tax collector's office in order to improve their interface with the assessor's office.

The assessor's office regularly receives funding for data processing upgrades and modifications in the general budget, and was not required to rely only on the PTAP funds for modifications to existing systems. However, the assessor has used some of the PTAP funds to enhance existing personal computer (PC) and data processing capabilities.

In the initial funding, the assessor allocated \$48,200 to augment county budgeted funding to acquire additional hardware such as PC's, technical modifications, and software to upgrade in-house data processing capabilities. The assessor allocated \$154,500 of the second year's PTAP funds to data processing program modifications, hardware, and software acquisitions.

To satisfy 1996-97 contract requirements, the assessor's staff also developed a computer assisted regression analysis program to identify those properties that suffered declines in value below factored base year value. Development and implementation of the regression analysis program initially required significantly more staff time than would normally have been used for a typical decline in value review. However, once it was developed, computerized identification and enrollment of such assessments resulted in significant cost savings over conventional reviews. An additional benefit is a significant reduction in filings of even more costly assessment appeals for the current year.

Each PTAP contract contains specific performance measures to be achieved in lieu of repaying the loan. The completion of these measures would, in theory, generate property tax revenue to schools greater than, or equal to, the loan amount. The assessor must report the actual workload, the number of reassessments completed, and the average increment of assessed value change. As

part of the contract, the county's auditor-controller is responsible for verifying the reported figures and calculations.

For the period July 1, 1995 through June 30, 1996, the assessor reported a mandatory audit backlog of 18 units of which 15 were completed. This backlog was reduced to zero by June 30, 1997. Five non-mandatory audits were also completed for 1995-96, and an additional 20 completed in 1996-97. In 1995-96 the assessor's staff resolved 927 assessment appeals cases, and 2,310 in 1996-97. Staff also reviewed more than 88,000 single-family residential properties, identifying 26,000 declines in value.

Placer County's participation in the PTAP has contributed to the reduction of backlogs in determining declines in real property value, assessment appeals, and both mandatory and non-mandatory audits. Other benefits included acquiring additional data processing hardware and software, and the improvement of other departments' interface with the assessor's office. For the coming roll year, the assessor's staff plans to request the full allocation of \$628,047 available under section 95.31 to further enhance assessment capabilities. We commend the assessor for using this source of funding effectively to improve the effectiveness of his operation.

DISASTER RELIEF

Section 170 provides that the county board of supervisors may adopt an ordinance authorizing tax relief for the assessee of any taxable property whose property suffers damage exceeding \$5,000 without his or her fault. The section prescribes procedures for calculating value reductions, applying for relief, enrolling the value of the repaired or restored property, and other considerations. Placer County adopted Ordinance Number 3680-B, effective June 3, 1986, to implement this property tax relief provision; the current ordinance conforms to the requirements of section 170.

A few days before Christmas 1996, the Lake Tahoe region experienced a large accumulation of snow due to a series of major storms. Beginning on January 1, 1997, several severe and unusually warm rainstorms produced flooding, mud slides, and high winds throughout the Lake Tahoe region, which was subsequently proclaimed a disaster area by the Governor.

Appraisers from the assessor's office worked with various governmental agencies to help plot and evaluate the water and mud slide damage. County assessment teams evaluated private homes and businesses. Approximately \$21 million dollars in storm-related damages (\$10 million for private structures and \$11 million for public infrastructure) was reported to the California Office of Emergency Services on January 9, 1997.

The damaged property was plotted on maps, with most of the damaged property located along the Truckee River. We found that the assessor's staff did an outstanding job in determining the estimated damage to the property and providing forms for qualified property owners. Overall, the program appears to conform to statutory requirement and provides timely disaster relief for taxpayers.

ASSESSMENT APPEALS

The assessment appeals function was established by article XIII, section 16, of the California Constitution, which provides that the Legislature shall determine the manner and procedure of assessment appeals. Sections 1601 through 1641.1 are the statutory provisions to guide county board of supervisors in the appeals function. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization, and the BOE adopted sections 301 through 326 of Title 18 of California Code of Regulations (Property Tax Rules 301 through 326) regarding assessment appeals.

The interaction between the assessor's office and the county appeals board must be balanced. The two agencies must cooperate to efficiently schedule appeals and notify appellants. At the same time, the separation of the authority and responsibility of both agencies required by law must be maintained.

In 1993, an economic recession caused the county to experience a major increase in the number of appeals filed for declines in value below factored base year value. The assessor made a notable effort to timely manage the increased appeals workload. Waivers were obtained for all appeals that had not been heard within the statutory two-year time limit, and no appeals exceeded the limit without a waiver. The following table shows the significant increase in appeal filings in the county beginning in 1993 with an apparent peak in 1996, followed by a decline in 1997.

	1992	1993	1994	1995	1996	1997*
Regular appeals filed	106	1,255	1,024	1,209	1,855	920
Supplemental appeals filed	56	131	182	167	216	36
TOTAL FILED	162	1,386	1,206	1,376	2,071	956
RESOLVED APPEALS						
(Amounts in millions)						
Regular roll value appealed	\$118	\$857	\$827	\$885	\$1,547	\$65
Supplemental roll value appealed	<u>11</u>	<u>36</u>	<u>85</u>	<u>66</u>	<u>39</u>	<u>2</u>
Total	\$129	\$893	\$912	\$951	\$1,586	\$67
Taxpayer requested roll change	-61%	-36%	-43%	-39%	-21%	-40%
Board granted roll change	-28%	-11%	-15%	-14%	-5%	-1.4%

* 7/1/97-10/23/97

To manage the large increase in appeals, the assessor's office developed a shared database in conjunction with the appeals board and enlisted the assessment appeals clerk to enter the initial appeal information into the database. Although the database is shared between the agencies, the agencies cannot access the confidential information of each other. The appeals database provides an effective means of tracking appeals to ensure compliance with statutory time limits and processing requirements.

The assessor's office has implemented a system for handling most appeal related correspondence by using standardized templates and internal routing slips. Requests for decline in value reviews are accommodated informally by the assessor outside of the appeal filing period which extends from July 2 through September 15. However, if a request for review is received within the appeal filing period, the property owner is advised to file a formal appeal.

Assessment Appeals Team

An assessment appeals team was established to manage the significant increase in appeals generated over the past five years. The appeals team is responsible for coordinating the entire appeals process within the assessor's office. The team consists of a supervisor, one appeals clerk, and a varying number of appraisers, depending on workload. The appeals clerk performs the administrative tasks, such as file management and data entry. For appeals prior to 1997, only five percent filed between 1994 and 1996 remain unresolved.

When appropriate, the assessor's staff attempts to resolve appeals without a hearing. With one exception, the appeals board requires a stipulation or hearing for any changes in roll value. The one exception is for owner occupied single family residences, provided the roll value being appealed is not already enrolled under section 51 for decline in value. If the assessor and the appellant agree to a decline in value, the assessor corrects the roll and mails a withdrawal form to the taxpayer with the roll correction notification. Over the past five years, 92 percent of the appeals were settled by withdrawal or stipulation; only 8 percent went to a hearing before the board.

We found the assessor's office has done an excellent job in responding to the increased appeals workload. The assessment appeals program is well administered and the staff is experienced and knowledgeable both in appraisal methods and the laws and regulations pertaining to the appeals process.

LOW-VALUE PROPERTY EXEMPTION

Section 155.20 authorizes the county board of supervisors to exempt from taxation all real property with a base year value, and personal property with a full value, so low that the total taxes, special assessments, and applicable subventions would amount to less than the cost of assessing and collecting them. Under section 155.20, the board of supervisors is required to establish an exemption level that is uniform for different classes of property.

RECOMMENDATION 2: *Recommend that the board of supervisors conform the low value resolution to the Revenue and Taxation Code.*

Beginning with the 1993-94 roll, the Placer County Board of Supervisors authorized the exemption of low-value properties. Their resolution, (Resolution No. 93-20 approved January 19, 1993), exempts all vessels, all unsecured personal property, and business trade fixtures having an assessed value of \$2,000 or less. Currently the assessor's office has approximately 9,500 accounts that qualify for the low-value property exemption. These accounts consist mainly of small (home) businesses, contractors' tools, and boats. All property statements received for these accounts are processed and appraised. When the assessed value of properties meeting the condition of the resolution drops below \$2,000, the exemption is applied.

The Placer County low-value resolution does not conform to section 155.20. The statute requires a uniform exemption level for the different classes of property, i.e., real property or personal property. Thus, a resolution exempting low-value personal property must apply to all personal property and may not be restricted to only specific types of personal property. Similarly, a resolution exempting low-value real property must apply to all real property and may not be limited to certain categories of real property, such as fixtures. Accordingly, the assessor should recommend to the board of supervisors that they revise the resolution to conform to section 155.20.

EXEMPTIONS

The Customer Support Section administers the property tax exemption program. This section is staffed by one full-time clerk, one half-time clerk and is supervised by an administrative supervisor. The full-time clerks is assigned to homeowners' exemptions; the half-time clerk is responsible for all other exemptions.

Our last survey included five suggestions to improve the exemption program. We found that the assessor responded in a positive manner to all our suggestions by establishing detailed written exemptions procedures, consolidating and/or purging hardcopy exemption file documents, and routinely notifying the business property division of any property leased to exempt organizations. We commend the assessor for addressing these problem areas.

ROLL CHANGES

The Revenue and Taxation Code provides several methods by which an assessment placed on the local roll can be changed after the assessor has delivered the roll to the auditor. These statutes exist to protect the rights of taxpayers and provide controls on the assessment roll.

In our previous survey, we recommended that the assessor follow the statutory provisions when making roll corrections. The assessor was using the roll correction provisions of section 4831 to bypass the assessment appeals process, which was an improper procedure. Subsequent to that survey, section 4831 was revised. It now permits roll corrections to reduce assessed values up to

one year after the delivery of the roll if the reduction is to reflect a decline in market value below factored base year value of real property.

RECOMMENDATION 3: Instruct staff to properly complete the roll correction form.

The assessor's office uses a roll correction form to initiate roll changes. To guide the auditor-controller in the proper application of interest, the assessor's staff must enter a date in the appropriate field on the roll correction form. If the assessor's staff does not enter a date in the proper field, section 506 interest will not be added to the computed amount of tax by the auditor-controller. We found a number of escaped assessments where the assessor's staff intended to apply section 506 interest but, by not entering a date in the appropriate field, section 506 interest was not applied.

We recommend the assessor ensure that his staff correctly completes the roll correction form.

COORDINATION

Placer County is attractive to business because of its low property values, low density, comparative seismic stability, and proximity to a major metropolitan area. In addition, a nearby intersection of two major interstate freeways facilitates shipping of finished goods. For these reasons, Placer County has recently seen construction of a number of major commercial and industrial facilities.

The size and complexity of a number of these newer commercial and industrial construction projects present the assessor's staff with new assessment challenges. One of these is the increased need for coordination between the business property section and the real property section. Often, the assessment of these properties will require the combined efforts of both sections, not only to classify and separate different types of assessable property, but to maintain proper assessment levels as additions and other changes occur in subsequent years. Coordinated assessments made with both sections are necessary to accurately document and support complex appraisal conclusions for presentation in any future assessment appeals.

REAL PROPERTY ASSESSMENT PROGRAM

INTRODUCTION

County assessors' programs for assessing real property include the following elements:

- revaluing those properties that have been subject to changes in ownership;
- valuing new construction;
- annually revaluing properties subject to valuation limitations, such as agricultural preserves (CLCA lands) and timberland production zones (TPZ); and,
- valuing, as of the January 1 lien date, property that has experienced a decline in value below factored base year value (as authorized by section 2 (b) of article XIII A of the California Constitution).

The real property workload for the 1997-98 assessment year in Placer County included 8,216 sales and other changes in ownership and about 9,000 building permits issued from eight different agencies. The mapping section created 3,442 new parcels resulting in 111 new map pages. In addition, the assessor's office processed disaster relief of about \$10 million to private structures as reported to the California Office of Emergency Services in January 1997. The real property section also performed many other tasks including assessment appeals.

Our review of the real property assessment program indicates most aspects are properly managed. However, we offer several recommendations and suggestions for improvements to the program.

CHANGE IN OWNERSHIP

Change in ownership is defined in section 60 as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest. CPTD's sampling of the 1997-98 Placer County assessment roll included 88 properties that had changed ownership since March 1, 1992. Our staff agreed with the assessed value of 83 of the properties. In two of the samples the difference was due to a difference of opinion between our staff and the assessor's staff. One disagreement was due to inflation factoring error. The remaining two were due to miscellaneous issues. None of the sample disagreements showed a pattern of errors.

In addition, we reviewed the assessor's change in ownership program, including the processing of recorded deeds and tracking of change in ownership statements. Also, files were checked concerning partial interest transfers, legal entity ownership transfers, and parent-child and replacement dwelling base year transfers.

The processing of deeds by the assessor's office appears to be efficient. We found few errors and no backlog of deeds awaiting processing.

Change in Ownership Statement

RECOMMENDATION 4: Apply section 482 penalties timely.

Occasionally a deed resulting in a change in ownership is not accompanied by a Preliminary Change of Ownership Report (PCOR). In those situations, the assessor's staff mails a Change in Ownership Statement (COS) to the transferee. If the initial COS is not returned in 45 days, the clerk mails a notice of penalty along with a second COS and an application for abatement of penalty. The second letter is sent with an expected return date of 60 days. In effect the taxpayer is allowed a minimum of 105 days to return a COS without penalty.

Section 482 provides that if a person fails to file a COS within 45 days after a written request by the assessor, the assessor shall add a penalty to the assessment made on the roll. After the penalty is added, section 483 allows the taxpayer to file the COS with the assessor and request abatement of the penalty through written application with the board of supervisor within 60 days of being notified by mail of the penalty.

We recommend that the assessor apply the penalty promptly upon expiration of the 45-day period. By not applying the penalty in a timely manner, the assessor is in effect extending the filing period without legal authorization.

Transfers of Partial Interest

SUGGESTION 4: Document fractional undivided ownership interests on the assessment record.

When there are multiple transfers of fractional undivided interests in real property, different base years and base year values result for the different interests. It therefore becomes important to know which interest is being transferred, so that the appropriate blended taxable value and supplemental assessment are determined. While there is no specific legal requirement for separate assessment of such interests, it is essential that their base year values be clearly tracked.

We noted in our review of the partial interest transfer process that in some instances it was impossible to determine the ownership interest being transferred. When a partial interest transfer is forwarded to the appraisal section, it becomes the appraiser's responsibility to track the ownership interest through PCORs or deed research. This becomes especially cumbersome for appraisers in the Tahoe City office who do not have the same access to records to perform research that an appraiser in the main office has. In some cases, appraisal records have not been updated, and tracking the transferred ownership interests was impossible to follow. Improper ownership tracking can lead to the enrollment of inappropriate values and incorrect supplemental assessments.

We were informed by management that they were aware of this deficiency in tracking fractional ownership interests. They are in the process of upgrading the computer system with the capability for tracking fractional ownership interests.

We suggest that the assessor direct his staff to document the ownership interest being transferred, the percentage of interest transferring, its new base year, and its new base year value for every partial interest transfer. Until the completion of the upgrade, the staff should use an “ownership tracking sheet” in the appraisal files to help prevent the enrollment of inappropriate values.

Legal Entity Ownership Transfers (LEOP)

The BOE’s LEOP unit transmits to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control. Each of the reported changes in control transactions is investigated and verified by the LEOP unit. The report includes the names of the acquiring entities, the change in ownership date for the parcels involved, and whether the property was owned or leased on the transfer dates.

Many of the acquiring entities are unable to provide detailed information pertaining to the name of the county the property is located in, the assessor’s parcel number, or how many parcels are owned by the entity. Because of the questionable accuracy of the data provided by the entities, LEOP has advised the assessor’s staff to thoroughly research each named entity’s holdings to determine that all affected parcels are identified and properly appraised.

We checked some of the appraisal records of properties listed in LEOP reports transmitted to the Placer County Assessor’s Office covering the time period January 1, 1982 to August 31, 1997. Between 1982 and 1997 the LEOP unit informed the assessor’s office of 115 companies and 953 parcels that required investigation for possible change in control. We found that the appraisal records indicate if an appraisal review or action had taken place because of the LEOP notices. Based on our review, the assessor’s office is properly processing LEOP notices.

Parent-Child Exclusion and Replacement Dwelling Base Year Transfers

Section 63.1 provides that, if a claim is filed in the required manner, the terms “purchase” and “change in ownership” do not include the purchase or transfer of the principal residence and the first \$1 million of other real property between parents and children. In Placer County the primary means of identifying these transfers is through the filing of the Preliminary Change of Ownership Report (PCOR). When the PCOR indicates a parent-child transfer, the assessor’s staff sends an application form to the taxpayer to file for the section 63.1 exclusion.

Section 69.5 allows taxpayers to transfer the base year value from their original residence to a replacement property, subject to conditions and limitations. The taxpayer must be 55 years of age or severely and permanently disabled. In addition, he or she must reside in the property that is eligible for the homeowners’ exemption and the replacement dwelling must be of equal or lesser value than the original property.

If all the qualifications of either benefit are met, the exclusion from reappraisal or the transfer of the base year value is granted. We found no problems in either program.

NEW CONSTRUCTION

Section 70 defines “newly constructed” as any addition to real property, whether land or improvements (including fixtures), since the last lien date, and any alteration of land or improvement (including fixtures) since the lien date which constitutes a major rehabilitation thereof, or which converts the property to a different use. BOE rule 463 elaborates on the definition by explaining that new construction means a “substantial” addition or physical alteration to real property.

When real property undergoes new construction, section 71 requires the assessor to determine the added value of those improvements upon completion. This value is established as the base year value for those specific improvements and is added to the property’s existing base year value. When new construction consists of the removal of existing improvements, the base year value attributable to those existing improvements is deducted from the property’s base year value.

The staff utilizes the market approach to value new construction when there is sufficient data. When the market data is not available, the staff values the new construction using the replacement cost approach. Cost is obtained from either the BOE or the Marshall Valuation Service cost manuals.

CPTD Sampling

CPTD’s sampling of the 1997-98 Placer County assessment roll included 52 items identified as new construction. In nine of these samples, the CPTD and county values did not agree. In four samples, our staff found new construction which had escaped assessment by the county. Most of this escaped new construction was completed without building permits (e.g., patio, decks). In two of the samples, the difference was due to different costs used by the appraisers. The remaining three sample items reflected differences due to miscellaneous issues. None of the differences were due to a breakdown in the management of the new construction program.

Building Permits

Placer County has eight building permit-issuing agencies: the County of Placer, and the cities of Auburn, Colfax, Lincoln, Rocklin, Loomis, Roseville, and Tahoe City. In addition, the county department of environmental health has the responsibility of issuing permits for wells and waste disposal systems. For the 1996-97 fiscal year, these agencies issued a total of about 9,000 permits.

Building permits are the main source the assessor has for discovering assessable new construction. The collection, screening, sorting, and tracking of permits is a high priority in the assessor’s office. Building permits are received in the assessor’s office bi-monthly or monthly. Permits issued by the Tahoe City Building Department are sent to the assessor’s Tahoe City office and all others are sent to the assessor’s main office in Auburn. When building permits are received, they are routed to an administrative clerk who verifies the parcel number and the owner’s name and address, and then keys the permit information into the computer system.

The administrative clerk also reviews the permits for non-assessable construction events such as:

- Reside, vinyl siding
- Reroof
- Electrical
- Wood stove
- Water heater replacement
- Temporary power pole
- Replacement of HVAC (heating, ventilation, and air conditioning)
- Furnace
- Sewer
- Water line
- Propane line

Permits for these events are retained for a year without further processing. Permits for signs are routed to the personal property section to notify them of potential new businesses. Data from the remaining permits are entered into the computer database.

The building permit is placed in the appraisal folder and a new construction sticker is placed on the right bottom corner of the appraisal folder. Green new construction stickers are used for even calendar years and red stickers for odd calendar years for easy identification. The appraisal file is then forwarded to the appraisal staff for appraisal.

Property Owner Reported Construction (PORC)

The assessor's office has an owner reporting program for selected residential building permit activities. This program uses a questionnaire to gather data from the taxpayer for an office appraisal. The program is limited to additions, alterations, and other miscellaneous construction of less than \$50,000 on residential properties. Its purpose is to reduce the amount of time and costs in assessing lower-valued new construction events by avoiding the necessity of field-checking the property.

The program generates mailing labels, which are attached to a PORC questionnaire and mailed to property owners at least 60 days after the date the permit is issued. The assessor's office requests that the property owner complete and return the questionnaire within 10 days. When a questionnaire is returned, it is logged into the database and then placed in the appraisal folder. The individual appraisers pull the appraisal records as needed. The returned questionnaires are reviewed for completeness and the reported cost information is checked against current cost manuals. If a questionnaire is not returned, an appraiser or cost estimator will make personal contact with the property owner.

When the permit work is complete, the appraiser will value the new construction and place the permit number, date, and action taken on the appraisal record. Copies of the permits are discarded once the valuation process has been completed.

Computer-Assisted Cost Program

The assessor uses a computer program to sketch new residential structures and to compute the square footage and unit costs of these structures. A cost estimator inspects the property, measures the new construction, and makes appropriate entries in the building record as to the type of construction, amenities, finish details, and quality. The cost estimator then uses the computer program to sketch an outline of the structure and to calculate the square footage from information gathered on-site. Once the appropriate cost and class factors are added to the accumulated information, the total building cost is calculated. The pertinent information is then placed in the appraisal file and tagged as new construction.

When the appraiser receives the file, that appraiser will have a complete drawing and cost computations for the new structures. The appraiser must verify the accuracy of the drawing as well as any additional structures that are not included on the plans. If there is a discrepancy of any kind, a revision of the original drawing is made, and a corrected copy is produced by the cost estimator.

Conclusion

The assessor's office has an effective program for processing permit information and consequently has good discovery results.

DECLINES IN VALUE PROGRAM

Section 51 requires that the taxable value of real property shall be the lesser of the base-year adjusted annually by an inflation factor of no more than 2 percent or the current market value. Requests from property owners for a roll value reduction due to a market value below factored base year value can be submitted for consideration throughout the year except during the assessment appeal filing period. During that time, July 2 through September 15, taxpayers are instructed to file a formal assessment appeal with the clerk of the board of supervisors.

The Tahoe region relies heavily on tourism, and the economic trends are somewhat independent of the rest of the county. In general, conditions in most market sectors of the Tahoe region were in decline through the 1980's while the rest of the county experienced substantial economic growth from 1986-1990. Conversely, the Tahoe region has seen significant economic improvement since 1990 in contrast to the major economic downturn experienced by most other regions during this decade.

On the 1997-98 tax roll, approximately 2.5 percent of the taxable parcels in the Tahoe region (excluding timeshares) experienced declines in value below the factored base year, compared to 18.2 percent for the county overall. Countywide, the number of value reductions increased 31 percent from 17,520 parcels (1996) to 23,008 parcels (1997). This significant increase was due to

a rise in the number of assessment appeals that were resolved during the year and the implementation of a program to review the assessment of every residential parcel in the county.

Beginning in 1992-93 the assessor identified geographic areas to review for declines in value due to market conditions. The assessor used a combination of methods to identify the areas to be reviewed. As changes in ownership were appraised the relationship between current and prior years sales was noted; when a pattern of declining values was detected the area was scheduled for review. A second means of identification was tracking the areas from which significant numbers of value "complaints" were received. A third means of identification was through an examination of the property upon which appeals were filed. Based on the time and staff available the assessor was able to focus resources on a large number of properties located in homogenous neighborhoods consisting of tract housed located on standard lots.

In preparation for the 1997 roll, the assessor launched an ambitious program to review all residential properties in the county and to enroll any market value found to be below its factored base year value. He acquired a statistical analysis program to implement this review. The goals were to identify any new declines in value below factored base year, to determine current market value for every residential parcel subject to a decline in value, and to recreate any lost base year values during the county's database conversion in 1993.

First, neighborhood data sheets were generated by the computer system for the county's 88,000 single-family residential properties in order of square feet of living area. The appraisers assigned neighborhood group codes to every parcel in the county with an emphasis on comparability rather than physical boundaries. To aid the appraisers, recent sales information was included in the data sheets for section 51 review. In addition, the statistical analysis program calculated market value indicators for properties located in highly homogeneous subdivisions.

Then the appraisers reviewed the data sheets and made any appropriate value changes on the data sheets. Data entry clerks entered the information in the system after it was reviewed and approved by the appropriate supervisor. Prior to lien date 1997, the assessor's staff had primarily relied upon assessment appeals to identify decline in value properties. They continue to rely upon appeals to identify new declines in value for non-residential properties. Any property which is enrolled with a section 51 market value decline is computer coded as such. The section 51 code has a dual purpose. It disables factoring of the property's prior roll value and flags it for annual review.

Overall, for the 1997-98 roll the assessor has made a major effort to correct and/or adjust all single-family residential roll values to reflect market value when it is lower than the factored base year value. Until market conditions improve, a significant allocation of resources will be required each year to identify any new value declines below factored base year values and to annually evaluate all decline in value properties in accordance with the requirements of section 51. Although the assessor has implemented a program for section 51 compliance, we have some suggestions to improve this program.

SUGGESTION 5: *Revise the decline in value program by: (1) clearly labeling the data sheet columns; and (2) updating the procedures in the manual.*

Data Sheets

We found that the columns of computer generated data sheets were not clearly labeled. Specifically, the roll value column and the factored base year column did not identify the intended year. We found that some of the appraisal staff misunderstood the intent and entered incorrect factors. The assessor was made aware of this problem and has taken steps to correct those errors. Future data sheets should correctly identify the information presented.

The sales data included in the data sheets should be expanded. The data sheets for the 1997 roll included sales from six months before and three months after the lien date. The price was indicated but no date. It would be useful to include at least two years of sales data including sale dates prior to the lien date, especially in neighborhoods with minimal sales activity.

Procedures

In reviewing a sampling of the recreated 1993 base year values, we found a number of appraiser and data entry errors. When the base year values are restored for this group of parcels, the assessor should establish procedures to ensure accuracy (see the Record Maintenance discussion earlier in this report).

The assessor's formal procedures for compliance with section 51 contain erroneous and/or outdated instructions. The document is charted for revision and interim procedures were developed. However, we found some inconsistencies in the way the appraisers interpreted the interim procedures. To address the problem of outdated formal procedures and inconsistent application of interim procedures, the assessor should revise the decline in value procedures prior to the scheduled date.

SPECIFIC TYPES OF REAL PROPERTY

CALIFORNIA LAND CONSERVATION ACT

A real property subject to a California Land Conservation Act of 1965 (CLCA) contract is assessed on the value of its agricultural income producing ability, including any compatible use income (e.g., hunting, communication facilities) or the lowest of this restricted value, the current market value, or the factored base year value. Sections 422 through 430.5 provide the guidelines for assessing real property land subject to a CLCA contract.

For the 1996-97 fiscal year, Placer County had 663 parcels under such contract, totaling 67,229 acres. The number of parcels in nonrenewal has continued to grow to 194 parcels for the 1996-97 fiscal year from 107 parcels for fiscal year 1991-92. Dry grazing makes up roughly 41 percent of the CLCA contracts, followed by rice land at 23 percent, irrigated farmland at 8 percent, and orchards at 1 percent. The remaining 27 percent are miscellaneous uses.

The assessed value of all lands under contract is only 4/10 of 1 percent of the total assessed roll value for the 1996-97 fiscal year.

One associate property appraiser is responsible for the annual valuation of all CLCA properties in Placer County. In addition to the CLCA workload, the appraiser is responsible for a large area with a considerable amount of new residential subdivisions as well as a sizable rural area.

The CLCA valuation process was computerized about six years ago. The computer program calculates the restricted value and compares the restricted value and the factored base year value to determine the lower value. If fair market value has been determined, the appraiser then compares that value to the computer – generated value; the lowest of the three values is enrolled.

Annually, the assessor sends a questionnaire to all property owners of land subject to a CLCA contract. This questionnaire requests information on agricultural and compatible use income, and type of farming use (e.g., field/row crop, grazing, irrigated/nonirrigated, orchard/vineyard). Currently, this questionnaire is the primary source of income data used to determine the market rent on CLCA properties. The return rate is about 75 percent, and of those questionnaires returned to the assessor, only about 40 percent have useable information (aside from changing use). The majority of respondents just sign and date the questionnaire in an apparent attempt to minimally comply with the assessor's request for information.

Two items mentioned from our previous survey report which were recommendations from our 1987 report were:

- assess trees and vines located on CLCA properties; and
- include a charge for irrigation improvements when calculating net income to land.

The assessor has not changed his policy on the assessment of trees and vines, or including a charge for irrigation improvements. We also found that the assessor's CLCA program does not use animal unit months (AUM's) to value grazing land.

RECOMMENDATION 5: *Revise the CLCA program by: (1) assessing trees and vines, (2) including a charge for irrigation improvements when calculating income to land, and (3) using AUM's as the unit of measurement in assessing grazing land.*

Trees and Vines

The assessor gives very low priority to the valuation of CLCA properties. This is understandable considering the 1996-97 restricted taxable value is such a low percentage of the total assessment roll. The assessor's staff contends that in their analysis of orchards and vineyards in Placer County there was no residual income to trees or vines after deducting the owner's expenses and a charge for land rent. Therefore, they contend orchards and vineyards have no value.

Despite the small contribution of agriculture use property to the assessment roll, we found that walnuts are still a two million dollar crop in Placer County. This seems to indicate that at least some trees have value.

We recommend that when valuing restricted land with living improvements, the assessor's staff review the gross rent used to ensure that all income to the property is included and that any excess income above bare land be capitalized into a value for the living improvements.

Irrigation Improvements

The income used to value irrigated land in Placer County includes income attributed to nonliving improvements, such as fixed pumps, permanently-installed pipelines, drip irrigation systems, and vineyard stakes and trellises. Nonliving improvements are valued by the cost approach. If a charge is not deducted from the income stream for return on and of the investment in these nonliving improvements, their value is included in the value of the capitalized income.

The staff confirms that there has been no change to the policy, no charge for nonliving improvements is taken out of the income stream. We recommended that the assessor ensure that his staff deduct a charge from the income stream for a return on and of the nonliving improvements.

Animal Unit Months

Currently, the assessor uses rents based on price per acre when using the income approach to calculate a value for grazing land. While applying a rent per acre is appropriate for many types of land, it fails to recognize the various capabilities and qualities of grazing land (open, steep, brushy, rocky, etc.) and therefore is inadequate in the valuation of these lands when using the capitalized income approach to value.

We believe that a rent based on animal unit (AU) or animal unit month (AUM) is a more accurate method for comparing grazing land. An AUM is the basic unit of measurement used to express the amount of feed required to maintain one animal unit for one month.

It is the most flexible measuring device for estimating carrying capacity and thus productivity of grazing lands. We suggest the assessor's office use AU or AUM's when valuing CLCA grazing lands.

SECTION 11

The Constitution of California exempts from taxation property owned by a local government except lands and certain improvements thereon that are located outside its boundaries and that were subject to taxation at the time of acquisition (article XIII, sections 3 and 11). Taxable government-owned properties are commonly referred to as section 11 properties and must be assessed in accordance with the procedures specified in article XIII, section 11 of the California Constitution.

The California Supreme Court decided in *City and County of San Francisco vs. County of San Mateo et al*, (1995, 10 Cal, 4th 554) that, except for Mono and Inyo counties, value determined under article XIII A of the California Constitution must be an alternative taxable value for section 11 properties. The taxable value of the land must be the lowest of (1) the 1967 assessed value adjusted by a factor supplied annually by the BOE (section 11 value), (2) the current fair market value, or (3) the factored base year value.

We reviewed the assessment records for each of the 25 section 11 properties on the Placer County property tax roll. The appraiser responsible for appraising the section 11 properties reviews their assessments each year. Although the section 11 properties are a very small part of the property tax roll, the assessor's staff has done a good job administering the assessment of section 11 properties. They keep good records of all section 11 properties and moved quickly to ensure that the 1995 court decision was considered in the assessment program.

TIMBERLAND PRODUCTION ZONE

Land that has been zoned Timberland Production Zone (TPZ) that is not subject to a CLCA contract is assessed in accordance with the special TPZ site classification values that exclude the value of the standing timber. For the 1997 lien date there were 118,941 acres of land in Placer County zoned TPZ on 477 parcels; this represents 13 percent of the county's total land area. The total assessed value of all parcels zoned TPZ was \$9,089,245.

SUGGESTION 6: Send questionnaires to owners of TPZ lands for compatible uses information.

There were no TPZ parcels included in CPTD's roll sampling for the 1997-98 property tax roll. Most of the timberland in Placer County consists of Site Class IV, Pine-Mixed Conifer, but site classes I through V are represented.

Section 435(a) requires that the taxable value of timberland shall consist of the appropriate site class value pursuant to section 434.5 plus any value attributable to existing, compatible, nonexclusive uses of the land. The value of compatible uses is to be annually determined and included in the assessed value of the land.

There has been no systematic canvassing of TPZ landowners to determine whether compatible uses exist. Typically, these uses may include hunting, grazing, camping, and mining, among other uses. We suggest that the assessor send questionnaires to all TPZ owners. This would help to determine whether owners are receiving income from compatible uses of the property.

POSSESSORY INTERESTS

The Placer County Assessor assesses over 700 possessory interests (PI's) including several hundred unpatented mining claims. Records for possessory interests are kept and maintained at both the main office and the Tahoe City office. We could not determine either the exact number or total assessed value of the enrolled PI's.

In both our current and 1993 assessment practices surveys, we noted that a commercial/industrial property appraiser in the main office appraises possessory interests in the western half of Placer County, and an appraiser III at the Tahoe City office is responsible for possessory interests in the eastern portion of the county. The appraiser in the main office contacts 57 government agencies and sub-agencies by letter or in person to obtain current information on new or changed tenancies and rents.

In our previous survey report, we recommended that the assessor annually reappraise, as changes in ownership, short term interests with month-to-month tenancies. Due to recent changes in the Revenue and Taxation Code, month-to-month tenancies may no longer require annual reappraisal.

Because documents granting PI's on government owned lands are usually not recorded, California assessors must rely on information provided by government agencies to appraise these possessory interests for the local tax rolls. Prior to 1996, all federal agencies routinely provided this information upon request. Subsequent to 1996, the United States Forest Service (USFS) determined that the lease information of private individuals who hold grazing permits and special recreational home use permits on USFS lands constitute confidential information and are not subject to disclosure under 5 U.S.C. Sec. 552(b)(6), and refused to provide assessors with such

information. The Kern County Assessor filed court action against the USFS, and litigation was still in process at the completion of the survey field work. It was subsequently resolved in favor of the plaintiffs. The assessor will now be able to obtain the necessary information for discovery and assessment of possessory interests on forest service property.

We also recommended other changes to the possessory interest assessment program. The assessor has made improvements in some areas. The staff now conducts an annual rate study to determine yield rates and have reviewed some uses, including a possessory interest assessment of a professional sports organization at a local community college. However, other areas remain unchanged. For this reason, we repeat a portion of our earlier recommendation and make additional suggestions pertaining to the possessory interest program.

RECOMMENDATION 6: Revise the possessory interest assessment program by assessing all qualifying possessory interests.

There are two public airports in Placer County. Each offers tie-down spaces for privately owned aircraft. Where there is sufficient evidence of durability, continuity, exclusivity, and private benefit, rental of these tie-downs indicates a taxable possessory interest. Possessory interests in aircraft tie-downs at public airports in Placer County have not been assessed. This was also the case during our survey fieldwork in 1984 and 1993.

While the assessor's staff believe that these taxable interests are of low value, Placer County's low-value property exemption resolution applies only to vessels, unsecured business property, and business trade fixtures. We point out earlier in this report that the selective nature of this exemption does not conform to the Revenue and Taxation Code and should be amended (see Recommendation 2). In the meantime, neither the existing resolution nor any other provision of law provides the assessor the authority to exempt possessory interests. Accordingly, the assessor must enroll all taxable possessory interests.

There are two fairgrounds in Placer County. The 20th District Agricultural Association, a State agency, operates the fairground and the Gold Country Fair in Auburn. Placer County operates the fairground in Roseville. Both fairgrounds rent facilities to groups and individuals, public and private, for interim uses during the rest of the year.

Our preliminary research indicates that a number of private uses of these fairgrounds are sufficiently durable, beneficial, exclusive, and independent to warrant assessment as taxable possessory interests. Some taxable uses are recurring uses of fairground property during the fairs. Others are interim uses by organizations or private individuals for events that occur during the remainder of the year.

Although fair concessionaires sign contracts for the right to use and occupy fairground facilities on a year-to-year basis, most concessionaires are permitted to return each year. And in fact, many

have returned for several consecutive years, indicating that there is a continuity of use and a reasonable term of possession in excess of one year.

During a normal operating year, both fairgrounds lease facilities or portions of its grounds to private individuals and organizations. The typical term of such leases may be two days or less for dances, pet shows, dealer shows, and a variety of other uses. Some leases will not qualify as taxable possessory interests because they are a single event with no history or likelihood of recurrence. However, it is apparent that there are a number of interim uses at the fairground that meet the standards of continuity because of their history of recurring use. Some renters have conducted their events for many years.

We noted the assessor has assessed several possessory interest assessments at the fairgrounds, but that most of the fairs' concessionaires and exhibitors as well the interim users at both fairgrounds have not been assessed. We recommend that the assessor review all private uses at the fairgrounds to determine their status as taxable possessory interests.

The State Lands Commission controls submerged public lands in Lake Tahoe and issues permits to property owners to build and maintain piers and buoys. Some permits are issued to residential property owners to construct and occupy a pier or dock only on the basis of a one-time fee. In other instances, residential property owners and all commercial marina operators pay annual rent for the right to construct and occupy piers and additional structures or buoys. In our previous survey, we noted that although the assessor assessed the piers and related structures, the right to use the land had not been assessed.

In our current review, we noted that the assessor has followed a portion of the recommendation we made in our last survey and assessed possessory interest assessments at most commercial marinas. However, the assessor has not assessed possessory interests at other commercial sites or any residential sites. These interests have the necessary private benefit, durability, exclusivity, and independence to qualify them as assessable possessory interests, and again we recommend that the assessor assess these interests.

SUGGESTION 7: Improve the possessory interest program by (1) consolidating PI records in a central file; (2) increasing documentation on the possessory interest files; (3) reviewing the anticipated term of possession for hangars at public airports; and (4) using appropriate rents and capitalization rates for grazing rights.

Records

In the main office, possessory interests are tracked through the use of three computer listings. The "860" listing groups possessory interests by their unsecured account number referencing an assessor's parcel number (APN). The "850" list similarly shows those possessory interests classed as "foreign improvements," such as privately owned aircraft hangars constructed on leased land by unsecured account number. Finally, a third lists all possessory interests in unsecured account number sequence. However, none of the lists provides contract data, such as

rents, terms of possession, beginning date, or lease terms. In the Tahoe City office, the possessory interest appraiser tracks possessory interests using a spreadsheet that lists current PI assessments as well as rates, rents, and terms of possession used for valuation.

Both offices maintain separate master files containing leasing agency information. In the main office, these files are segregated by agency. The Tahoe City office keeps information files for all leasing agencies in a single binder. In both offices, the information contained in these files is incomplete.

The filing system for individual possessory interest records in Placer County is unconventional. Although possessory interests are assessed on the unsecured roll, the current filing system distributes individual records throughout the secured real property filing system by location in assessor's parcel number (APN) sequence. Some consolidation of possessory interests records occurs where a number of possessory interests lessees are located at a single site or where an agency leases sequential APN's. In general however, possessory interest records for jurisdictions or agencies with multiple sites or APN's were dispersed throughout the real property files.

Placer County's current system for tracking, filing, and processing possessory interests is cumbersome. It adds to the effort required for periodic reviews and to maintain the necessary level of documentation required for an effective possessory interest assessment program. We believe this also adds significantly to the individual staff appraisers' workload in the processing of possessory interest assessments.

Most assessors' offices consolidate all possessory interest records by government agency in a separate, centralized filing system. In such filing systems, agencies have separate master files containing not only background data but current listings of all tenants as well. Staff compare current lists with past listings to facilitate discovery of new lessees. Centralized filing would facilitate reviews, reduce time required for periodic updating of records, and contribute to greater effectiveness in the administration of possessory interest assessments. We suggest the assessor adopt a similar filing system.

Documentation

The two staff appraisers assigned to the valuation of possessory interests track and document their values in different ways. The appraiser at the Tahoe City office uses a spreadsheet to track rates, rents, and contract terms. The appraiser at the main office uses printouts of unsecured account numbers and assessor's parcel numbers to track possessory interest assessments and then documents the valuation on the hardcopy record.

A large portion of the possessory interest records we reviewed contained no descriptions of how the lessee uses the leased property. We also found that the majority of the possessory interest files lacked copies of current leases, permits, or other written instruments that established the taxable interest. And neither office tracked the dates of lease commencement and termination.

Documenting the file is a necessary first step in valuing the possessory interest. Without such documentation it can be difficult to determine the term of possession, economic rent, date of change in ownership, ownership of improvements upon reversion, and other facts essential to a sound appraisal. Recent changes to sections 61 and 62 mandate more detailed documentation of term commencements.

Such data should be entered on the possessory interest record. This information is necessary not only for value determination but for purposes of review. A historical record also ensures consistent assessment.

Lease data and term of possession used in the assessment are also needed in order to properly schedule reappraisal activity. The document that creates the possessory interest, the written agreement, lease, or permit is the best source of this information. Whenever possible, staff should obtain copies of leases for inclusion in the PI file.

We suggest that leases and permits be obtained and included in the PI record and a “tickler” file be maintained that lists the start, termination, and renewal dates of all possessory interest contracts and other pertinent facts.

Term of Possession

A number of aircraft hangars at the City of Lincoln airport are owned by private individuals and are located on sites leased from the city on a month-to-month basis. The possessory interest value of the land is calculated by capitalizing the contract rent over a three-year term.

We found that the data supplied by the City of Lincoln Public Works Department indicates that the average term of possession for the great majority of airport hangar tenants exceed three years. We believe that a longer term should be used as the reasonably anticipated term of possession.

When a private party owns the structure on land leased on a month-to-month term, it is reasonable to assume intent to use the land for the life of the structure. We suggest that the assessor consider the remaining economic life of the hangar structure as the term of possession for airport hangars unless change-in-ownership data indicates a shorter term is appropriate.

Use Market Rents and Appropriate Yield Rates

Possessory interests are also created when a governmental agency leases grazing rights or land to private parties for agricultural uses. The assessor capitalizes the contract rents paid for grazing rights into a possessory interest value. While the technique is correct, the rents are generally well below market levels. Because contract rents for grazing permits on government-owned properties are often determined by formula rather than economic or market conditions, they must be verified by market data from non-government lessors. Rental data for non-government owned grazing and agricultural land in Placer County indicates that the contract rents may be low.

Also, the yield rate used by the assessor's staff to convert the grazing rents into a possessory interest value is the same rate used to capitalize commercial and industrial property rents. Grazing land rental income should be capitalized using a yield rate that is appropriate for capitalization of agricultural rents.

We suggest that the assessor revise the valuation of grazing rights possessory interests by using market rents and a yield rate representative of agricultural properties.

MINERAL PROPERTIES

Placer County has several active sand and gravel quarries and unpatented mining claims. During the course of our review, we found several areas of the assessment of mineral properties in the county that need improvement.

RECOMMENDATION 7: Improve the mineral appraisal program by recognizing the proper appraisal unit and reviewing reserve estimates.

Appraisal Unit

We found that the assessor's staff currently values the mineral rights and the business property associated with the mining operations separately. Property Tax Rule 469(e)(1)(C) requires that the appraisal unit used for recognizing declines in the value of the mineral property consists of land, improvements (including fixtures), and proved reserves. Failure to value the proper appraisal unit could result in some of the property being assessed at current market value and other parts of the property being assessed at the adjusted base year value.

The recommended procedure for transferring information between the real property division (mineral rights) and the business property division (fixtures and equipment) in Assessor's Handbook Section 504 should be followed. Interdepartmental coordination would ensure that both real and personal property with the mineral property appraisal unit is properly assessed and that any decline in value are recognized.

Reserve Estimates

Reserve estimates should be reviewed each year. Currently, the assessor deducts the prior year's production from its base year level of reserves. Proved reserves will change over time, not only due to depletion, but also due to changes in economic and physical operating conditions. We found that the county has not reviewed the proved reserve estimates since the base year amounts had been established. In addition, the production reports for the properties were incomplete with respect to reserve information. The assessor should take steps to ensure that the forms are properly completed by taxpayers and that the proved reserves are reviewed regularly.

Unpatented Mining Claims

Unpatented mining claims are claims to mineral rights on government-owned land and are treated by the assessor's office as a possessory interest. These claims are typically renewed each year by performing annual work greater than \$100 in value or paying a \$100 rental fee to the government.

RECOMMENDATION 8: *Assess unpatented mining claims based on rental payments or annual value of assessment work.*

The assessor's staff assesses unpatented mining claims based on a price per acre for the acreage associated with the claim. The recommended procedure for assessing unpatented mining claims is to capitalize the rental payment or add the amount of annual assessment work performed by the claimant. These represent income to the land or the minimum value that the claimant perceives the property to be worth.

WATER COMPANIES

Water company properties assessed on local tax rolls may be municipal systems on taxable government-owned land (article XIII, section 11 of the California Constitution), private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water associations. Each type presents different appraisal problems. Municipal water systems own no section 11 properties in Placer County.

SUGGESTION 8: *Obtain county water inspection reports and compare to water company property records.*

To ensure that the assessor has assessed all water companies and water-related properties within Placer County, we obtained a listing of all water supply sources annually inspected by Placer County Environmental Health Department. The assessor does not receive a copy of the listing. We randomly reviewed water sources from this list and found that they had some assessments made against that name.

The listed water source properties included private water companies, mutual water companies, mobilehome parks, and many others. A list of these properties can be very useful to the assessor in locating assessable wells, pumps, and pressure systems.

However, since the assessor's office does not have a copy of this list, we suggest that the assessor's staff obtain the list from the Placer County Environmental Health Department. Once this information is obtained, the assessor's staff should ensure that all taxable properties have been assessed.

PERSONAL PROPERTY ASSESSMENT PROGRAM

INTRODUCTION

Personnel in the Placer County Assessor's business property section have changed substantially since our last survey report. Previously, we noted that the business property staff consisted of four auditor-appraisers, one cost estimator, and two full-time clerks. Since then those four auditor-appraisers have left the office and have been replaced by three recently hired auditor-appraisers consisting of one supervising auditor-appraiser and two auditor-appraisers.

Placer County annually processes 15,000 assessments on the unsecured portion of the local assessment roll. Approximately 12,000 are for boats or businesses. The remaining assessments include leased property, mines, equipment, and aircraft.

The County Property Tax Division's (CPTD) sampling of the 1997-98 Placer County local assessment roll included 37 accounts containing assessable personal property or fixtures. In 18 of the sample items the county's assessed value differed from the CPTD estimate of taxable value. The CPTD estimates of taxable value were higher in 12 sample items while six were lower. These differences were not due to any inherent problems with the program.

AUDIT PROGRAM

Mandatory Audit

Section 469 and rule 192 require that taxpayers owning or using business personal property and trade fixtures at a full value of three hundred thousand dollars (\$300,000) or more for four consecutive years be audited at least once every four-year period. Such accounts are classified as "mandatory audits."

Placer County has approximately 182 mandatory audits. In a typical year, approximately 45 mandatory accounts are scheduled for audits. For the fiscal year 1996-1997, the assessor's staff completed 55 mandatory audits.

SUGGESTION 9: *Improve audit effectiveness by (1) requiring the completion of an audit checklist in every audit; and (2) requiring properly referenced audit workpapers.*

Audit Checklist

Audits verify information submitted by taxpayers on the annual property statements. Whether audits are simple or complex, certain audit procedures should be performed to determine the accuracy of information submitted by the taxpayer. Requiring an audit checklist gives added assurance that important audit procedures were performed and critical information was obtained. It is particularly important when the auditor is inexperienced, as are those in the Placer County Assessor's Office.

Every audit reviewed during our survey fieldwork had adequate written narratives. However, while an audit checklist was available to the auditor we found it was seldom completed and in one incidence, it was not even used. We suggest that the use and the completion of this checklist be standard procedure for all audits.

Audit Workpapers

Consistently referenced and cross referenced audit workpapers enable the assessor's reviewers, the taxpayer, or an appeals board to easily follow the auditor's logic and the flow of data. The assessor's staff uses minimal cross-referencing. We suggest the auditors not only number their workpapers but also reference and cross-reference the data sources.

Nonmandatory audits

A nonmandatory audit program serves several purposes in the assessment function. First, it is an important means of improving taxpayer reporting. Inadvertent taxpayer reporting errors on the annual property statements are the most common differences found in audits conducted by the BOE and county assessors. A nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

The assessor's staff has implemented our previous recommendation that special problem accounts be flagged during the year and included in the nonmandatory program. Also, an annual listing by value, complete with a four-year history, would help in managing the nonmandatory program. This list would identify those accounts approaching the mandatory audit limit. These accounts should be given priority for an audit, because they have the greatest potential for taxpayer error.

The supervising auditor-appraiser maintains a list of nonmandatory accounts with special problems and randomly selects some for an audit. All nonmandatory audits are performed on a time available basis. For the fiscal year 1996-1997, the assessor's staff has completed 27 nonmandatory audits.

TRADE LEVEL

Property Tax Rule 10 (a) prescribes in part that:

“In appraising tangible personal property, the assessor shall give recognition to the trade level at which the property is situated and to the principle that property normally increases in value as it progresses through production and distribution channels. Such property normally attains its maximum value as it reaches the consumer level. Accordingly tangible personal property shall be valued by procedures that are consistent with the general policies set forth herein”

SUGGESTION 10: Instruct staff to verify reported trade level.

In our review of the assessment records, we found that the assessor applies the taxpayer's declared trade level adjustment to the taxpayer's declared costs. However in one of our samples, we found that the taxpayer's reported trade level adjustment was understated. In another sample, the county did not include all overhead and labor in self-constructed equipment. Although both taxpayers have been recently audited, we did not find a review of the trade level adjustment in the assessor's audit workpapers.

We suggest the assessor direct his staff to perform closer verifications on taxpayer's reported trade level adjustment and provide more training to his staff relating to computations of overhead and labor for establishing the trade level adjustment.

**BUSINESS PROPERTY STATEMENT PROCESSING
Program**

For the most part, business property assessments are based upon data submitted by taxpayers on the annual business property statements. We found that the business property section has good control over the receiving and safeguarding of business property statements. The assessor also does a very good job of utilizing his clerical support staff to input all routine property statements followed by auditor-appraiser review. There are about 1,500 taxpayers who fail to file a property statement each year requiring the staff to make assessments pursuant to section 501.

For fiscal year 1997-98, the business property section had processed 15,000 business property accounts with a roll value of approximately \$1.2 billion. These accounts include a variety of properties such as general business, agriculture, boats, aircraft, and apartments.

SUGGESTION 11: Create and review an annual listing of accounts with penal assessments.

Section 463 provides for a 10 percent penalty for failing to file or late filing of a property statement. The assessor's staff correctly applies this penalty. However, we believe it would be useful to maintain an annual listing that would identify chronically delinquent or nonfiling accounts receiving a 10 percent penalty; this listing would have two categories: "filed late" and "failed to file." This list would identify chronic offenders.

Taxpayers who appear consistently on the list should be scheduled for an office or field audit of the account. This should improve the taxpayer's accuracy and incentive to return the business property statement. We suggest the assessor create a list of accounts receiving penal assessments and audit these accounts if they consistently appear on this list.

Direct Billing

Several California assessors use an assessment procedure called "direct billing" or "direct assessment." In this procedure the business property of certain low-value business accounts is assessed without the requirements of an annual property statement. This procedure is suitable for

small established businesses whose equipment and supplies remain fairly constant from one year to another. Examples of these types of businesses are small apartments, barber shops, beauty salons, laundrettes, small cafes and restaurants, and professionals with small equipment holdings. This procedure reduces the amount of paperwork for small businesses, reduces the number of property statements that must be processed by the assessor's staff, and makes more staff time available for the audit program.

In Placer County, there were approximately 3,000 direct billing accounts on the 1997-1998 roll. To be eligible for the direct billing program the taxpayer must initially meet the following criteria:

- A business property statement must have been filed at least once in the last two years.
- Total cost of all taxable personal property must be less than \$100,000.
- The taxpayer has only one location in the county.
- The business must be stable, with little change in equipment from year to year.

The direct billing program can be productive and effective only if direct billed accounts are periodically reviewed and updated. The assessor's staff requires all accounts on a direct billing status to complete and file a business property statement once every four years. When these statements are returned for processing, the initial criteria is used to determine if the account should remain on direct billing status. However, if the taxpayer fails to file a business property statement, the assessor will enroll an estimated value with appropriate penalties and remove the account from the direct billing program.

We reviewed a number of direct billing assessments for the 1997/98 assessment roll and found that the program is being administered in accordance with the assessor's criteria.

Discovery

Timely discovery of taxable property is one of the basic functions of every assessor. It is a never-ending process made difficult by the rapid turnover of many small businesses, changes in ownership, change of location, etc. It is a formidable task to maintain accurate current listings of business assessesees and is imperative that an efficient and effective discovery program be in place.

SUGGESTION 12: Expand the discovery program.

The reverse phone directory and city/county business licenses are the primary sources of discovery used by the assessor's office. They are good discovery methods; however, there are other low-cost techniques that could augment the assessor's discovery program.

Other widely used and effective tools for discovering new business entities include reviewing landlord reports of tenant and sales tax permit information provided by the BOE which provides very useful information, such as, name, doing business as (DBA) name, address, and type of business. Placer County is one of the fastest growing counties in the state with a large tax base for sales and use tax permits; the use of these cards should not be completely ignored.

Although the two methods of discovery that are primarily used by the assessor are good, we suggest the assessor expand the discovery program in order to achieve a more up-to-date listing of business assessesees.

SPECIFIC TYPES OF PERSONAL PROPERTY

LEASED EQUIPMENT

One of the responsibilities of the business property section is the discovery and assessment of taxable leased equipment. The annual property statement requests that taxpayers report all leased equipment (taxable property in their possession but belonging to others). The name and address of the owner, the month and year of acquisition, the acquisition cost, and other relevant information are requested on the property statement. When leased equipment is reported by lessee on the property statement, the auditor determines if the lessor is an active account that would routinely receive a property statement. If not an active account, the lessor is asked to file a property statement.

SUGGESTION 13: Revise the leased equipment assessment procedures by annually reviewing the BOE's listing of property leased to state assessees.

Public utilities and railroads in California are assessed by the BOE. Certain equipment which is used by these assessees but leased from others is locally assessable. This property is reported by the assessees to the BOE's Valuation Division on Form 600-B. Annually, the Valuation Division furnishes every county assessor with a copy of these Form 600-B's, listing equipment that is leased by public utilities which is locally assessable.

The business property staff does not reconcile the local property statements and the Forms 600-B because there is not enough time to process these reports and the individual amounts involved were not material. Since no reconciliation is done, it is not possible to know if the cumulative effect of property discovered on these forms is material.

The benefit to the assessor of having a copy of all Forms 600-B is the discovery of leased equipment. We think that the accuracy of the assessment of leased property would be enhanced if the staff were to annually compare the property statements with the Form 600-B filed with the Valuation Division. Not much time would be required to review the Form 600-B for new lessors and to check reportings of large leased equipment.

VALUATION FACTORS

Taxable values of equipment are typically derived by applying combined valuation factors to historical costs. The combined valuation factors are the product of the price index and percent good factors. The proper choice and application of these price index and percent good factors produces the best estimate of taxable value.

In our prior survey, we recommended that the assessor use the factors in the Assessors' Handbook Section 581 (AH 581) Equipment Index Factors as instructed. The staff only used

factors from four of the 12 classes of commercial properties and arithmetically averaged the factors from the remaining eight classes into one factor per year.

RECOMMENDATION 9: Use the BOE's equipment index factors in the AH 581 as recommended.

The assessor does not use the AH 581 as it was intended. In addition to the above described misuse, at the present time all price index factors listed in the handbook for industrial equipment are arithmetically averaged into one factor. The staff does not distinguish between equipment purchased "new" or "used" when valuing mobile agriculture and construction equipment. We believe these practices can cause inaccurate valuation of these classes of equipment.

The actual effects of using averages instead of specific price index factors cannot be precisely determined without quantifying asset acquisitions by category and year of acquisition for the entire county. The consequence of using factors as developed by the assessor's staff is that some property will be overvalued and some undervalued. It is important that the appraisal staff selects the appropriate equipment index factor. Although the county overall totals may show only a small "bottom line" difference, the accuracy of individual appraisals will be materially distorted by averaging. Averaging price index factors sacrifices accuracy for convenience, resulting in inequitable treatment of taxpayers.

Given the computer capabilities within the assessor's office, it would not be difficult to automate the application of individual price index factors so that averaging would no longer be required. Therefore, we repeat our previous recommendation to use the factors from the AH 581 as recommended.

POLLUTION CONTROL EQUIPMENT

The California Pollution Control Financing Authority (Authority) either acquires or finances the acquisition of devices or facilities necessary to mitigate air and water pollution caused by private industrial operations under authority of the Health and Safety Code. Bond issues arranged by the Authority finance these acquisitions. The participating industrial user either leases the device from the authority or borrows the money to acquire the device.

For devices owned by the Authority and leased to private industrial uses, section 201.5 provides that there is a possessory interest in such devices, even if the devices are personal property. Legal title to these devices continue with the Authority until the expiration of the agreement, which may involve a nominal buyout (e.g. \$1.00 or \$100.00) as in a conditional sale agreement.

Because of the issue of ownership, the assessee may not report the full costs of this equipment on the property statement. To help discover such bond-financed equipment, the Authority can be requested to furnish the assessor with an annual listing of pollution control financing bonds issued during the previous year, the project locations, and the bond amount.

SUGGESTION 14: Verify the assessment of pollution control devices financed by state bond issues.

Since 1986, bonds issued by the Authority have financed over \$56 million in pollution control devices installed in Placer County. We found that the assessor has not been keeping track of these agreements.

Copies of the list of participating industrial users should be obtained from the Authority to verify the bond amount when the assessor conducts audits of the participating entities. The assessor should ensure that these devices are assessed.

BOATS

The business property staff assessed over 6,000 boats on the 1997-98 tax roll for a total assessed value of \$50,206,720. Since our last survey report, the assessor has improved the boat valuation program. Previously boats were valued by decreasing the previous years' assessed value by a fixed percentage; this practice has been discontinued.

We found boats are now appropriately assessed at their fair market value. Currently the boat's purchase price is initially used to determine market value, however consideration is given to the National Automobile Dealer Association (NADA) Appraisal Guides. Thereafter, boats are categorized into groups by boat type, i.e. sailboat, inboard, outboard, personal watercraft and jet skis. Within each group a value adjustment is developed using trends based on market values in the NADA Appraisal Guides, which is then applied to all boats within each group. This approach is more accurate than the "across the board" adjustment previously employed and provides a closer approximation of market value.

MANUFACTURED HOMES

The Revenue and Taxation Code requires manufactured homes to be assessed on the secured roll, to be subject to supplemental assessments, and to have a base year value the same as real property. However, section 5810 requires that manufactured homes be classified as personal property. Classification of a manufactured home as personal property results in several consequences that can affect its taxability. For instance, a manufactured home classified as personal property is:

- exempt from property tax if held for sale or lease by a dealer;
- exempt from property tax if owned by military personnel on active duty with out-of-state residency; (and an appropriate claim is filed)
- is not subject to a possessory interest assessment if owned by a government agency and used by a private party;
- exempt from property tax if owned by an insurance company; and

- exempt from property tax if owned by a bank or financial corporation and not leased to an individual or taxable entity.

The assessor's staff completed a comprehensive inventory of all manufactured homes in Placer County in late 1995-96. This inventory included reviewing for the proper classification of manufactured homes as personal property, checking for taxable accessories such as carports, steps, and permanently affixed storage sheds, and checking serial numbers for manufactured homes listed with the Department of Housing and Community Development. Our interviews with the assessor's staff and review of the assessor's records for manufactured homes assessments disclosed no problems with the classification of manufactured homes.

In our 1993 assessment practices survey, we recommended that the appraisal staff not include site value in the assessments of manufactured homes located in rental parks. We also recommended the assessor properly use the National Automobile Dealer Association's Mobilehome/Manufactured Housing Appraisal Guide (NADA) when developing market value indicators for manufactured homes.

SUGGESTION 15: Determine an appropriate site value for each individual manufactured home park.

The assessor's staff conducted a study that determined the site value influence on a sold manufactured home is 10 percent of the sales price of the manufactured home. Staff deducts 10 percent for park influence from the purchase price and uses the result as the base year value.

Using a blanket 10 percent reduction for sales of manufactured homes in all parks in the county is unrealistic. This technique could result in different site values in the same park solely because of the purchase price of the manufactured homes. It could also result in a different value for the same manufactured home model in a different park.

We suggest that the assessor establish a site value for each park and not use a percentage of sale price as an allocation to site value.

COMPUTERS

In the past, the valuation of computers and related equipment (herein referred to as computers) has been a contested issue between taxpayers and assessors. In its continuing effort to maintain proper, equitable, and uniform property tax assessment, the BOE, in Letter to Assessors (LTA) 97/18, dated April 2, 1997, recommended valuation factors for assessors to use when valuing non-production computers for the 1997 lien date.

The tables for small computers and mainframe computer systems represent a recalculation of the depreciation curves that were used to calculate those categories for the 1996 lien date. The table for mid-range computers represents a new curve based on all data accumulated to date. The BOE reviewed all data accumulated by the Property Taxes Department, the California Assessors'

Association, and representatives of the computer industry and authorized the publication of the computer valuation tables for the 1997 lien date.

The assessor's staff stated that they follow BOE guidelines concerning the valuation of computers. We found for the 1997 lien date that computers were valued using the BOE-recommended factors as contained in LTA 97/18. We commend the assessor and his staff for their proper assessment of non-production computers.

APPENDIX A

THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing² activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The BOE, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the BOE's CPTD on a five-year cycle and is described as follows:

- (1) A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
- (2) These assessments are stratified into three value strata,³ identified, and placed into one of five assessment categories, as follows:
 - a. Base year properties -- those properties the county assessor has not reappraised for either an ownership change or new construction since the previous CPTD assessment sampling.
 - b. Transferred properties -- those properties where a change in ownership was the most recent assessment activity since the previous CPTD assessment sampling.
 - c. New construction -- those properties where the most recent assessment activity was new construction added since the previous CPTD assessment sampling.

² The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

³ The three value strata are \$1 to \$199,999; \$200,000 to \$1,999,999; and \$2,000,000 and over.

- d. Non-Proposition 13 properties -- those properties not subject to the value restrictions of Article XIII A.
 - e. Unsecured properties -- those properties on the unsecured roll.
- (3) From the assessment universe in each of these fifteen (five assessment types times three value strata) categories, a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. (A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values.) Because a separate sample is drawn from each of these assessment types and value categories, the sample from each category is not in the same proportion to the number of assessments in every category. This method of sample selection causes the raw sample, i.e., the unexpanded sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by expanding the sample data; that is, the sample data in each category is multiplied by the ratio of the number of assessments in the particular category to the number of sample items selected from the category. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
- (4) The field investigation objectives are somewhat different in each category, for example:
- a. Base year properties -- for those properties not reappraised since the previous CPTD assessment sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
 - b. Transferred properties -- for those properties where a change in ownership was the most recent assessment activity since the previous CPTD assessment sampling: do we concur that a reappraisal was needed? do we concur with the county assessors new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? or was there a decline in value?

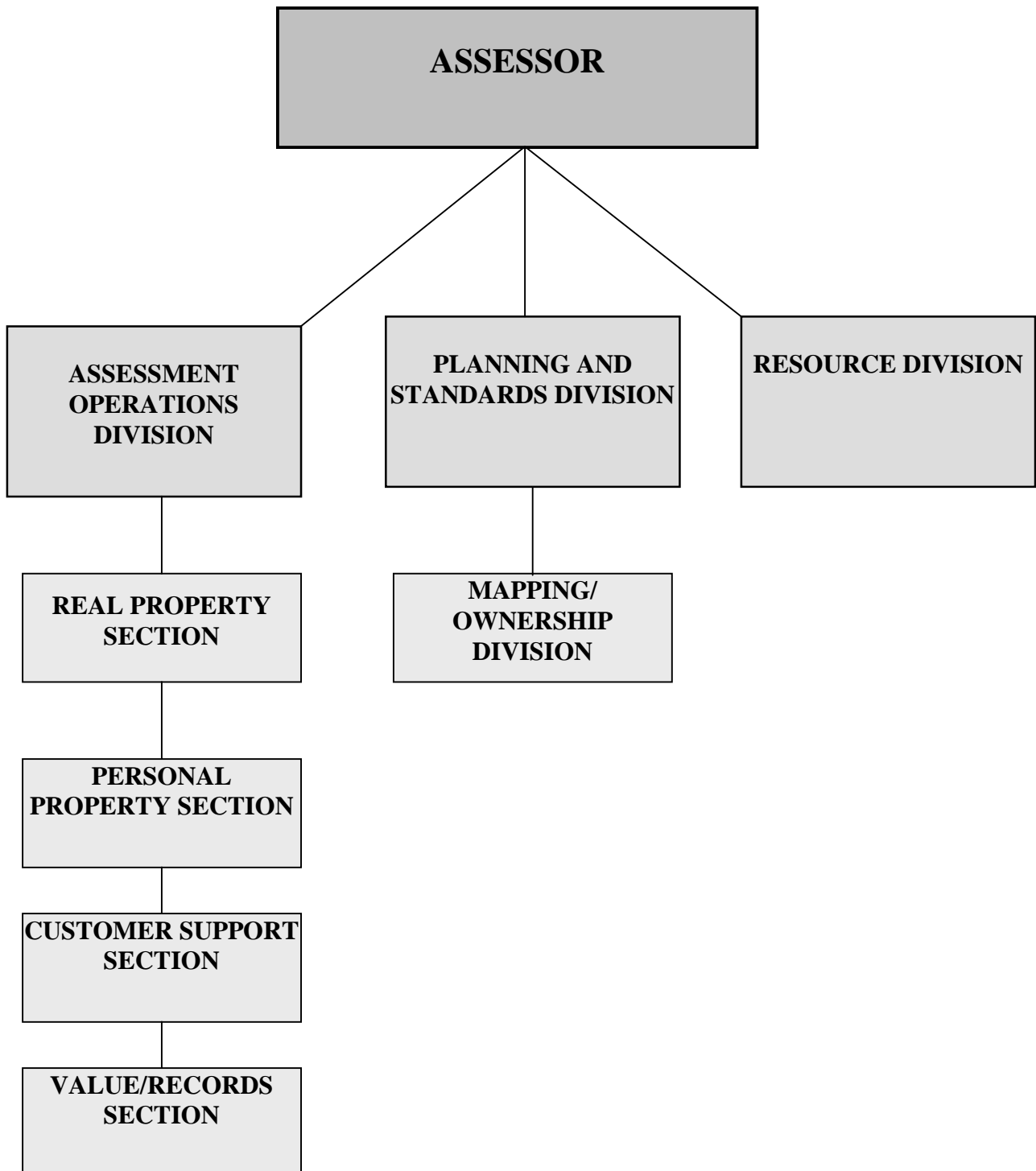
- c. New construction -- for those properties where the most recent assessment activity was new construction added since the previous CPTD assessment sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d. Non-Proposition 13 properties -- for properties not covered by the value restrictions of Article XIII A, do we concur with the amount enrolled?
 - e. Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
- (5) The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
 - (6) The results of the sample are then expanded as described in (3) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

One of the primary functions of the assessment practices survey team is to investigate areas of differences disclosed by the sampling survey data, determine the cause and significance of the differences, and recommend changes in procedures that will reduce or eliminate the problem area whenever the changes are cost effective or are required by legal mandate. Consequently, individual sample item value differences are frequently separated into segments when more than one problem is identified, and the results expanded and summarized according to the causes of the differences. Much of the support for the County Property Tax Divisions recommendations in the form of fiscal and numerical impact is drawn from the expanded sample data, and statistics relating to specific problems have been incorporated in the text of this report.

Emphasis is placed on factors directly under the county assessors control. Differences due to factors largely beyond the county assessors control; such as (1) conflicting legal advice; (2) construction performed without building permits; (3) unrecorded transfer documents, (4) assessment appeals board decisions, and (5) factors requiring legislative solution, are specifically identified in the text when these problems are reflected in the statistics.

APPENDIX B

ORGANIZATION CHART



ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS



OFFICE OF

BRUCE DEAR
Assessor

PLACER COUNTY ASSESSOR

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April 16, 1999

Mr. William B. Jackson, Chief
County Property Tax Division
Property Taxes Department
State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0063

Subject: Placer County Assessment Practices Survey Response

Dear Mr. Jackson:

Enclosed is my response to the recommendations included in the State Board of Equalization Assessment Practices Survey of Placer County. This response was prepared in accordance with Section 15645 of the California Government Code.

I want to express appreciation to Arnold Fong and the entire survey staff for the professional manner in which they conducted the audit that resulted in this published survey.

As you will note, I concur with many of the recommendations and have already taken the appropriate steps to implement changes to our current procedures. In other instances, I either do not agree, or I feel that the impact on the overall assessment program is so minor that the recommendation would have been better characterized as a suggestion.

I also appreciate the several suggestions included in the report. We are reviewing our procedures and will incorporate the suggestions to the extent that the change is cost effective and that we have sufficient resources to accommodate the change.

Finally, I want to thank the employees of the Placer County Assessor Department for their dedication to produce the assessment roll every year. Their effort enables this office to maintain very high standards of quality and efficiency in a challenging environment.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bruce Dear", is written over a horizontal line.

Bruce Dear
Placer County Assessor

BMD/MMS/js

Enclosure

PLACER COUNTY
State Board of Equalization
Assessment Practices Survey Response

Recommendation 1:

Bring staff training into compliance with the Revenue and Taxation Code.

We concur with the recommendation. In calendar year 1998 the certified staff completed a total of 539 SBE training hours. As of, February 3, 1999, the number of certified appraisers with deficit training hours was reduced from 19 to 7. The largest training hour deficit was reduced from more than 30 hours to 19. It is our intention to continue to provide training as SBE courses are available.

Placer County also has a textbook and tuition reimbursement program and all employees are encouraged to take classes as needed for their professional growth.

Recommendation 2:

Recommend that the Board of Supervisors conform the low value resolution to the Revenue and Taxation Code.

In our opinion the low value resolution adopted by the Board of Supervisors conforms to Revenue & Taxation Code section 155.20. It is clearly the intent of section 155.20 to allow cost effective business practices, so that the cost of assessing and collecting taxes and special assessments on specific types of property does not exceed revenue derived from the assessment process. Placer County's low value resolution accomplishes that exact purpose. Any boat, and most business property, that is self-reported on a business property statement is assessed as a separate appraisal unit in a defined process. Measuring costs associated with the assessment process for these appraisal units confirms the validity of exempting all of these properties below a certain value threshold.

The State Board of Equalization (SBE) recommendation is based on an interpretation of section 155.20 that defies the tests of common sense and intent. Using the SBE interpretation we would either assess certain property at a cost greater than the revenue derived or exempt substantial amounts of property that is cost effective to assess. We will not do that.

Recommendation 3:

Instruct staff to properly complete the roll correction form.

The assessment roll correction process is a complicated, multi-department, integrated sequence of events. State Board staff did find a minor glitch in the process.

We concur with this recommendation. Assessor staff is instructed to properly complete roll correction forms so section 506 interest can be applied by the Auditor-Controller.

Recommendation 4:

Apply section 482 penalties timely.

In the process of reviewing tens of thousands of events to produce the annual assessment roll, this is a minor, but accurate observation.

We concur with the recommendation and have modified our procedures to comply with section 482.

Recommendation 5:

Revise the CLCA programs by: (1) assessing trees and vines (2) including a charge for irrigation improvements when calculating income to land, and (3) using AUM's as the unit of measurement in assessing grazing land.

To put this recommendation in the proper perspective, CLCA properties comprise about .4% and orchards about .004% of the assessment roll. We will continue to apply cost effective business practices but we will review the following steps to improve the CLCA valuation program:

- (1) revise our CLCA annual survey questionnaire in order to gather more information on trees and vines and assess them when warranted.
- (2) revise our procedure on irrigation improvement so that a charge may be deducted from the income stream for return on and of the non-living improvements.
- (3) revise our CLCA annual survey questionnaire to gather information in order to consider animal unit months in our appraisal of grazing land.

Recommendation 6:

Revise the possessory interest assessment program by assessing all qualifying possessory interests.

- (1) Assess possessory interests in aircraft tie-downs at public airports.

As the Board points out "Where there is sufficient evidence of durability, continuity, exclusivity" rental of tie-downs are taxable possessory interests. The Auburn and Lincoln Airport do not assign or guarantee tie-down spaces. Rental agreements are month to month with transient aircraft paying by the night. We conclude that the right to park aircraft on the tarmac at the Auburn and Lincoln Airports is not sufficiently durable or exclusive to constitute a taxable possessory interest.

- (2) Review all private uses at the fairgrounds to determine their status as taxable possessory interests.

In order to determine long-term and repeat tenancies at the Placer County and Gold County Fairgrounds, we make a written request to each fairground manager for a list of tenants and rents. We will continue to review the lists and assess those users that have long-term agreements or have established a history of occupancy through repeat tenancy and meet the criteria for durability required of a taxable possessory interest.

- (3) Assess the possessory interest at Lake Tahoe.

The value of the possessory interests for the submerged public lands with private piers or buoys is reflected in the value increase in the sale of the upland parcel. Separately assessing these possessory interests would constitute double taxation.

Recommendation 7:

Improve the mineral appraisal program by recognizing the proper appraisal unit and reviewing reserve estimates.

We believe this issue is more appropriately categorized as a minor suggestion as opposed to a recommendation. There are currently 5 quarry operations, with total mineral rights of approximately \$700,000, or 0.00004% of the roll value, in Placer County. All have old base year values, well below current market value. When new quarries are developed, we will recognize the recommended appraisal unit and review reserve estimates.

Recommendation 8:

Assess unpatented mining claims based on rental payments or annual value of assessment work.

We concur with this recommendation and will assess unpatented mining claims in accordance with AH560.

Recommendation 9:

Use the BOE's equipment index factors in the AH581 as recommended.

This recommendation is technically correct but the valuation impact is so minor that it suggests a preciseness, which is beyond the ability of any appraiser when estimating market value to a willing buyer. Although, we do not use all of the index tables, we have discontinued the practice of using arithmetically averaged factors. The index factor tables now in place represents the industry base located in Placer County.

**BOARD'S
COMMENTS
ON
ASSESSOR'S
RESPONSE**

BOARD'S COMMENTS ON ASSESSOR'S RESPONSE

In accordance with the provisions of Government Code section 15645, the Placer County Assessor elected to incorporate his response to the Board's findings and recommendations in the published survey report. Section 15645 also allows the Board to include in the report comments regarding the assessor's response.

The assessor states that the value of certain possessory interests is reflected in the value increase in the sale of the upland parcel, so separate assessments would constitute double taxation.

We agree that in some circumstances a portion of a taxable possessory interest will be reflected in the sale price of a property, but it is effectively impossible for the entire possessory interest to be reflected in a sale price when there is a continuing obligation to pay rent. Accordingly, Property Tax Rule 25 *requires* that the present worth of future contract rents must be added to a sale price of the possessory interest; this creates an additional value that must be assessed.

In addition, as noted on page 31 of this report, possessory interests for most commercial marinas are being assessed, but possessory interests are not assessed at other commercial sites or any residential sites.

